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DEPT PASS TO USTR FOR SOUTH ASIA - CLILIENTFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA - MNUGENT
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SUBJECT: GOVERNMENT SIGNALS PERFORMANCE IS PARAMOUNT IN KEY ECONOMIC
AND DEVELOPMENT MINISTRIES

REF: NEW DELHI 1062

1. (SBU) Summary. The Congress-led United Progressive Alliance (UPA) announced the remainder of its 79-member council of ministers on May 28, who join the earlier round of ministers announced on May 22 (see reftel). The week-long process of selection seems to have placed more weight on capable and committed administrators and supporters of Prime Minister Singh's policies, rather than the more usual coterie of party and Gandhi loyalists. Many have construed a comment by Congress Party President Sonia Gandhi to signal that Cabinet ministers must succeed in the government's infrastructure and social sector goals, or expect to be replaced. Indeed, the exclusion of several senior and loyal party members who were perceived as nonperformers can be taken as the first proof of that resolve. Press is interpreting the assignments as designed to maximize the Prime Minister's imprint on economic policy goals and outcomes. If successful, that bodes well for US economic and commercial interests. However, it may be worthwhile to heed recent contacts who warn that reform advocacy will only be welcomed where it is tied to concrete, direct benefits for struggling Indians. Efficiency and openness per se will not be winning arguments, but tangible job creation and improved service delivery in infrastructure and the social safety net will carry the day. End summary.

Second Time Around, Performance Matters Most

2. (SBU) In the UPA's last term, allies' demands within a fragile coalition and party loyalty were larger determinants in portfolio assignments, leading to significant underperformance in ministries key to improving livelihoods, including roads, power, health, and education. The ministerial appointments announced late on May 28 suggest, encouragingly, that effectiveness is now the more important factor, with PM Singh's input seen more clearly in the allocation of portfolios. Singh has reportedly told Congress Members of Parliament that "business as usual" won't do. Notably, several Gandhi loyalists are out this time around - Arjun Singh, who was Minister for Human Resource Development (HRD), HR Bhardwaj, and octogenarian Sis Ram Ola, amid perceptions that they held back their ministries. Three senior Congress leaders, seen as take-charge people who have the PM and Sonia Gandhi's support, have been assigned key social and infrastructure ministries. They are former Jammu & Kashmir Chief Minister Ghulam Nabi Azad at Health, Kapil Sibal at HRD, and Kamal Nath at the Roads and Surface Transport

Ministry. These and the other assignments are credible first steps towards the UPA's delivering on improving living standards, physical and human infrastructure development, and job creation. Most of the key economic ministries, along with implications for the US, are noted below.

Ministry of Finance - Pranab Mukherjee

13. (SBU) Pranab Mukherjee was chosen as Finance Minister on May 22, in the government's first tranche of senior ministers (see reftel). He has been acting Finance Minister since January, when Prime Minister Singh underwent bypass surgery. Key priorities for the Finance Minister will be passage of the budget (septel), returning India to a higher growth trajectory, and reining in the fiscal deficit. The Finance Ministry will have to decide whether it can afford another fiscal stimulus as well as examine how effective the stimulus packages introduced so far have been. The fiscal constraint may be partially mitigated by re-starting partial divestment of public sector companies. (Note: Government figures released on May 29 put GDP growth for the April 2008-March 2009 fiscal year at 6.7%, well within government estimates and above most economists' forecasts. End note.) Mukherjee has also told press that he will focus on inclusive growth and sees reforms as the way to stimulate the economy.

14. (SBU) Contacts have told Econoffs that since Chidambaram moved over to the Home Ministry in December, Planning Commission Deputy Chairman Montek Singh Ahluwalia has provided the substantive policy input for the government's response to the global finance crisis and the economic downturn. There is no word yet that this will

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continue, but Post judges it likely, given Mukherjee's limited economic policy experience with India's integration with the global economy. Contacts describe Mukherjee as an astute and capable administrator, who is most interested in improving government performance. As such, he is viewed as agnostic on reforms, rather than an ardent reformer. US interlocutors may find him more open to dialogue, but not easily persuaded on the merits of liberalization without specifically tying it to concrete results in "inclusive growth" objectives such as more roads, electricity, or schools. Overall, Mukherjee brings with him vast experience in government, uncanny political instincts and uncommon intellectual ability.

15. Bio: 78-year old Mukherjee, from West Bengal, is the most senior UPA Cabinet Minister. Mukherjee is frequently tagged in the press as the country's de-facto Prime Minister as he chairs Cabinet meetings in the Prime Minister's absence. Mukherjee was at the forefront of the U.S.- India Civil Nuclear Deal as the Foreign Minister from 2006-09. He is one of the Congress Party's most highly-regarded stalwarts and strategists, and a close advisor to Sonia Gandhi. He has favored stronger ties with the U.S., including more economic and trade cooperation.

Ministry of Commerce and Industry - Anand Sharma

16. (SBU) In a move that surprised many commentators and contacts, former Minister of State for External Affairs, Anand Sharma, was elevated to Minister of Commerce and Industry (MOCI) on May 28. Some industry officials were not surprised that former MOCI Minister Kamal Nath was replaced, given political signals in recent days, but deemed the move to bring in Sharma in his stead as 'unexpected'. Sharma is seen by some as close to the Prime Minister, given that he played an occasional role as an envoy and troubleshooter in helping to advance the PM's agenda on civil-nuclear and counter proliferation issues. Indeed, some media speculated that Nath's tough postures in multilateral forums, particularly the WTO Doha Round, may have undermined his position with PM Singh, with the latter feeling better placed to remove Nath after a strong election outcome. Embassy officials who have met Sharma in different settings describe him as a consummate diplomat, a quick study, polished, and not drawn to the limelight, unlike his showman predecessor.

¶7. (SBU) Foreign mission contacts in Delhi told Econoff May 29 that they discussed the possible attendance of MOCI Minister Sharma at the Cairns Group Ministerial in Bali, June 7-9, with senior MOCI bureaucrats. The Cairns meeting will be one of the first multilateral meetings where WTO members plan to reengage on the Doha Round agenda in the wake of the Indian and U.S. elections. The senior MOCI bureaucrats confirmed that they will recommend that Sharma attend the meeting. Sharma does not have sufficient clout to change India's substantive positions in the WTO Doha Round; that will require consensus within the government. However, Post expects Sharma to avoid the public posturing on behalf of the developing world that Nath did, in favor of a more constructive, consensus-seeking approach that burnishes India's image as a global economic player.

¶8. Bio: The 56-year old veteran Congress official Anand Sharma is a lawyer by profession. He was appointed Minister of State for External Affairs in February 2006. As a former Youth Congress leader, Sharma was the face of the Congress Party when he was its spokesman for several years leading up to his MEA appointment. In addition to his experience in external affairs, Sharma is conversant with parliamentary and legislative procedures and international law. He has also organized several major international conferences, including the Non-Aligned Movement (NAM) Youth Conference in 1985. Although his work with NAM might give pause, Sharma is seen as a pragmatist.

Ministry of Agriculture - Sharad Pawar

¶9. (SBU) Pawar was reappointed Minister of Agriculture and will immediately confront certain key decisions that have to be made on government grain stocks and minimum support prices (MSP). High MSPs

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in the past few seasons, especially for wheat and rice, along with good monsoon rains, have underpinned large crops. Much of this harvest has been procured by the government, with 33 million tons of wheat and 16 million tons of rice projected in stocks by July 1. Faced with a glut of wheat, in particular, Pawar will have to decide whether to feed the stocks into the broken public distribution system or to export. A decision to export wheat would require a costly subsidy since the domestic MSP-supported price is higher than the internationally-traded wheat price. In addition to adding to India's near-term fiscal deficit, an export subsidy would likely violate WTO rules.

¶10. (SBU) Longer-term, Indian agriculture faces a number of intertwined economic and political challenges revolving around the need to improve agriculture productivity and growth. If the GOI is to make progress on raising agricultural productivity, Pawar will have to focus during his tenure on agricultural research and education, rationalizing the costly fertilizer subsidy and the MSP, undertaking marketing reforms, addressing futures trading in commodities, and finding a vehicle to provide cheap credit to farmers without creating moral hazard. Pawar has in recent days stated that he is looking at a soft-credit program to enhance farmer borrowing capacity.

¶11. Bio: Pawar, 69 years old, began his career in politics early, becoming president of the State Youth Congress at 24. In 1978, he became the Chief Minister of Maharashtra at the age of 38. Mr. Pawar completed two more terms as Chief Minister before being appointed India's Defense Minister in June 1991. An additional stint as Maharashtra CM and as an opposition leader in Parliament followed. Pawar was appointed Union Minister of Agriculture in ¶2004.

Ministry of Human Resource Development (HRD)
- Kapil Sibal

¶12. (SBU) Educators across India are today breathing a sigh of relief at the appointment of Kapil Sibal, 60, as Minister of Human Resource Development. A member of Parliament from Delhi, Sibal served in the previous government as Minister of Science and

Technology where he served effectively and was a regular Mission interlocutor. Said to be Rahul Gandhi's personal choice for this Ministry, Sibal's appointment represents a recognition by the government that it is time to end the practice during both Congress and BJP-led governments of using the position as a holding spot for the PM's internal rivals, on the assumption they could never succeed in office.

¶13. (SBU) The lack of long-expected forward movement on education reform during PM Singh's first term was a major sore point for many of the Congress Party's urban supporters, even as the government raised education outlays in recent years. Mission believes that Minister Sibal, who has traveled many times to the U.S., will be an active interlocutor in our bilateral educational dialogue. In the past, Sibal has told senior USG visitors that he supports the opening of India's education market to international participation, consistent with the intent of legislation that has been stalled in Parliament by his predecessor for three years. Although many questions remain about the conditions under which U.S. educational service providers may enter the Indian market, forward movement with these reforms represents an important litmus test for urban Indians of the UPA's desire to modernize and expand India's creaky education system. India's teachers and administrators are hopeful that with Sibal's appointment, things will finally get moving.
Ministry of Civil Aviation (MOCA) - Praful Patel

¶14. (SBU) As a Minister of State with an independent charge, Praful Patel is back in the Union Cabinet with the same portfolio. He resumes charge of the aviation sector at a time when it is undergoing a deep crisis globally, with estimates that the Indian aviation industry alone accounts for almost one-third of the global losses. Following his appointment, Patel told reporters that his top priority will be focusing on state-run carrier Air India which has been underperforming and continues to face stiff competition from private carriers. Since the Air India and Indian Airlines

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merger in 2007, Patel has faced criticism for the huge losses incurred by the airlines. At present, Air India is estimated to be grappling with losses of nearly \$800 million. The ministry is likely to consider a new proposal for Air India which will include a larger restructuring plan, equity infusion and a soft loan.

¶15. (SBU) Patel, an industrialist turned politician, has been credited for bringing a business-like approach to the aviation sector, including reforms to liberalize the sector, to modernize the aviation infrastructure, and to secure new aircraft for Air India and Indian Airlines. His reappointment is viewed as affirmation of his solid performance under the previous UPA government. Patel will now face the tremendous challenge of turning around the depressed aviation sector and moving ahead with modernization plans for the nation's airports. One of the ministry's top priorities is said to be the implementation of a new civil aviation policy, formulated nearly three years ago, which among other matters allows foreign airlines to acquire up to 49% stake in domestic carriers. Patel has been a strong supporter of closer U.S.-India ties; he signed the historic bilateral Open Skies Agreement in 2005 and the Aviation Cooperation Program in 2007, a public private partnership to assist in developing India's aviation infrastructure.

¶16. (SBU) Bio: Praful Patel, 52, is a young and dynamic leader of the Nationalist Congress Party (NCP). He has been a member of the Rajya Sabha from Maharashtra since April 2000 and is a close confidant of NCP chief Sharad Pawar. Patel serves as party treasurer and spokesman. Patel is a member of the U.S-India Parliamentary Forum, a group of Indian parliamentarians interested in stronger US-India ties. Patel is forward leaning on reforms and has been supportive of liberalization of India's civil aviation sector. He is credited with allowing increased competition into the sector with the entry of low cost carriers. Patel helped to expand the fleets of Air India and Indian Airlines with large aircraft orders.

Ministry of Road Transport and Highways
- Kamal Nath

¶17. (SBU) Kamal Nath, previously Minister for Commerce and Industry, was named Minister of Road Transport and Highways with Cabinet rank on May 28. His appointment is being cast by the GOI as putting a Congress Party heavyweight with long standing administrative experience in charge of key infrastructure policies. Nath told reporters that the "old regulatory framework" overseeing the transportation sector will be modernized to make it "practical". He said his first priority will be to examine the major impediments in implementing plans for infrastructure development in the country and then introduce new models for reworking the regulatory policy framework for roads.

¶18. (SBU) Major challenges facing Nath will include raising funds for the sector; dealing with the liquidity crunch under the current global recession which has delayed the financial closure of key projects under the National Highway Development Plan (NHDP); encouraging private investment and confidence in state-level public private partnership projects; strengthening institutional capacity; and helping ease land acquisition clearances. While some contacts were surprised by the appointment of Nath to the Road Ministry, they noted that his tough postures at multilateral forums as Commerce Minister may have led to the change in portfolios. Nath is viewed as an able administrator and is expected to help turn around the road and transport ministry to deliver on major infrastructure projects to stimulate the economy.

¶19. (SBU) Bio: While former head of MOCI, Nath was responsible for major trade policy initiatives, bilateral and multilateral trade negotiations, and domestic industrial policy. During his tenure, a comprehensive Foreign Trade Policy (2004-09) was announced outlining a coherent roadmap with a twin focus on exports as well as employment. India's merchandise export growth rate increased during the first four years of his tenure, before turning negative in the past several months with the global slowdown. As MOCI, Nath pursued major bilateral trade initiatives with ASEAN, Japan, the EU, and within South Asia. On the WTO Doha Round, Nath has been a vocal proponent of differential treatment for developing countries and a leader - along with Brazil - of the G20 in the trade talks. Many observers place the blame for the July 2008 collapse of a crucial

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WTO Ministerial meeting on Nath's unwillingness to reach a compromise with the U.S. on the level of protection to be afforded developing country farmers.

Ministry of Power - Sushil Kumar Shinde

¶20. (SBU) Sushil Kumar Shinde, 67, retains his position as Minister of Power, which he started on January 29, 2006. The Ministry of Power oversees one-third of India's installed power generation capacity and all inter-state power transmission through its centrally-owned companies; and it affects inter-state policy related to the state-owned and privately-owned power stations, that are 51% and 15% of total capacity respectively. The separate Department of Atomic Energy handles nuclear power (3%). With coal-fired thermal power accounting for 65% of its power production, Shinde's ministry and the power sector make up a large percentage of India's carbon dioxide emissions, and thus any GOI climate change concerns must take into account his responsibility for supplying electricity for India's economic development. Shinde is tasked with achieving India's ambitious targets of expanding power generation capacity by over 50% by 2012 and he sees expansion of coal-fired capacity (two-thirds of the addition) as the mainstay for growth through ¶2032.

¶21. (U) Bio: Sushil Kumar Shinde is a Dalit from a poor cobbler's family in Maharashtra, a sub-inspector who studied law. He won an assembly seat and rose through state Congress Party ranks to be Finance Minister and then Chief Minister of Maharashtra (2003-04), and held the non-political post of Governor of Andhra Pradesh for a year before becoming Power Minister.

Ministry of Petroleum and Natural Gas
(MPNG) - Murli Deora

¶22. (SBU) Murli Deora, 72, continues as Minister of MPNG, which he became in February 2006, replacing Mani Shankar Aiyar, who was seen

as acting too independently on India's hydrocarbon-related foreign activities, including in potential deals with Iran. Deora has seen Iran as an unreliable potential partner, such as in the proposed Iran-Pakistan-India natural gas pipeline. With strong connections in both the Indian parliament and the U.S. Congress, Deora was an important behind-the-scenes player and interlocutor for the U.S.-India Civil Nuclear Initiative negotiations. India now imports about 26% of its natural gas and 78% of its crude petroleum consumption (with about 10% re-exported as refined products) and is actively seeking equity in foreign oil and gas reserves. The MPNG-controlled ONGC Videsh Ltd has been a potential partner in proposed oil and gas deals with Iran, but none has yet come to fruition.

¶23. (SBU) MPNG oversees government-owned companies responsible for the majority of India's domestic petroleum and natural gas production, refining, transportation and marketing, as well as its overseas exploration, production and services activity through ONGC Videsh. Deora says he supports decontrol of refined oil product prices, a politically delicate position, which however could end the need for large subsidies to GOI-owned refining and marketing companies and could attract private sector participation. MPNG does not control private companies like Reliance Industries Ltd (RIL), which will soon produce new natural gas that doubles India's output, but which is also a past and potential source of diesel and gasoline exports to Iran.

¶24. (U) Bio: Murli Deora, prior to becoming MPNG Minister, was a member of the Upper House (Rajya Sabha) of the Indian Parliament, and has represented the prestigious South Mumbai constituency in the Lok Sabha for three consecutive terms in 1984, 1989, 1991, and again in 1998. Deora is the Congress Party's liaison with corporate funding sources. He was previously elected Mayor of Mumbai with the highest ever majority and was the Chief of Mumbai Region of Indian National Congress for a record period of 22 years. He graduated in Economics from the Univ. of Mumbai.

Ministry of New and Renewable Energy (MNRE) -
Farooq Abdullah

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¶25. (SBU) Farooq Abdullah, 72, of the National Conference Party and from Kashmir's predominant political family, was appointed MNRE Minister. MNRE is responsible for policy related to renewable energy, including wind, solar, bio-mass, and small hydropower (under 25 Megawatts capacity), but it does not directly supervise any fuel or power production from these sources, which is mainly run by the private sector. The MNRE is promoting feed-in tariffs and renewable portfolio standards (RPF) and it is drafting the "Solar Mission" policy aimed at incentives for developing and deploying photovoltaic and solar thermal power. MNRE has been cooperative with the U.S.-India Energy Dialogue's New Technology and Renewable Energy Working Group, including with the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy in a wide variety of programs, in addition to recently signing an MOU on Cooperation in the Development of Bio-fuels. MNRE has also supported several recent USDOC trade delegations for clean and renewable energy, including the solar mission in March 2009. To date, renewables account for only 2% of electricity production. The GOI promotes renewables more as way to help meet the power demand-supply gap and to deliver energy to remote areas, and less as a way to mitigate greenhouse gas emissions.

¶26. (U) Bio: Farooq Abdullah was elected MP from Kashmir's summer capital Srinagar in 1980 and succeeded his father as Chief Minister succeeded on his father's death in 1982. He returned to power in 1987 and forged an alliance with Congress. After years of direct Presidential rule, he again became the Chief Minister of Jammu and Kashmir in 1996. His son Omar Abdullah is currently Chief Minister of Jammu and Kashmir. His daughter Sara is married to Sachin Pilot, the new Minister of State the Ministry of Communications and Information Technology.

Ministry of Communications and

¶27. (SBU) Mr. Andimuthu Raja, 46, continues as MCIT Minister, which he became in May 2007, after the ruling United Progressive Alliance's coalition partner, the Tamil Nadu-based Dravida Munnethra Kazhagam (DMK) Party forced out Minister Dayanidhi Maran, due to an intra-DMK conflict. The MCIT is divided into the Department of Telecom (DOT) and Department of Information Technology (DIT). MCIT/DIT has overseen India's boom in information technology, with India's world-class software technology and data-processing services contrasting with its very low rate of computer and internet penetration for the population as a whole.

¶28. (SBU) MCIT/DOT (Telecom) has presided over India's phenomenal growth in mobile telephony, both by directly overseeing GOI-owned MTNL and BSNL, and by allocating telecom licenses and radio spectrum for second generation (2G: voice) and now third generation (3G: data/video/voice) mobile services to private Indian and foreign companies. Thus, the MCIT's authority creates a possible susceptibility to corruption in a booming competitive private market dependent on GOI licenses and allocations. Raja is expected to move quickly in the long-awaited open auctions for 3G spectrum -- an act welcomed by foreign participants. In his first term, Raja was viewed positively for his support of raising the foreign direct investment (FDI) ceiling to 74% and for approval of U.S. companies' long distance licenses. However, he faced intense criticism as "Spectrum Raja" for favoritism in his handling of 2G spectrum allocation policy and for delays in the controversial 3G auction policy. The Wall Street Journal India partner Live Mint's editorial on May 29 reported that the Prime Minister had allegedly wanted Raja out of the new cabinet, and said that Raja's reappointment "cancels out" the PM's "positive signal" of removing another politically-connected minister who had caused "damage."

¶29. (U) Bio: Andimuthu Raja, a 46-year old Dalit lawyer, and Member of Parliament from Nilgiris, Tamil Nadu was groomed into a politician by the late Murasoli Maran and is now a loyalist of Rajathi Ammal, third wife of the DMK party Chief M Karunanidhi. He is known for his oratorical skills. Raja held positions as Minister of State for Rural Development and for Health and Family Welfare,

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and he was elevated to cabinet rank as Minister of Environment and Forests in 2004. He is entering the Lok Sabha for the fourth time in a row since 1996. A Raja is one of DMK's propaganda secretaries.

A Rose by Any Other Name: New Name for Reforms?

¶30. (SBU) Even amidst the positive signals coming from Congress' stronger Parliamentary position and Ministerial choices, several contacts this past week have mentioned that advocacy of reforms should be handled carefully, noting that it is wrong to assume that, because the Left is out of the way, that the government will wholeheartedly embrace reform. Dr. Subir Gokarn, Senior Economist for Standard & Poor, Asia, told an industry seminar on May 28 to view the UPA's re-election mandate with caution. Calls for reform should not be presented as "reform for reform's sake" but should be translated into "tangible outcomes for inclusive growth." Dr. Saumitra Chaudhury, member of the Prime Minister's Economic Advisory Council, told Econoff on May 27 that reforms needed a new name, comparing it (with only small irony) to US Treasury's renaming of toxic assets as legacy assets. Chaudhury asserted that reforms in India are seen as being pushed predominantly by those who most benefit from them. Instead of reforms, he suggested calling proposed changes as something like "home improvements," that would address the new government's heightened focus on better service delivery in roads, power, schools, and teachers.

Comment

¶31. (SBU) While Post still advises tempered expectations on making headway on key bilateral economic interests, the UPA this week sent an encouraging message with its selection of ministers for key

economic and development posts. The Prime Minister seems to have convinced party leader Sonia Gandhi that performance matters in previously marginalized ministries, such as roads, health, and education. Given the low health and education indicators that prevail in India, these ministerial appointments are a good first step towards improving livelihoods in India and fulfilling India's potential as a sustained, inclusive, high growth economy, as well as expanding opportunities for mutual, bilateral trade and investment. The next important move will be to act quickly and decisively - the first 18-24 months of a new Parliamentary session are the best opportunity for policies that have longer-term gains but shorter-term costs.

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